

## RE-THINKING HUMAN RESOURCES

December, 2007

In August, 2005, Fast Company magazine published a scathing article entitled “Why We Hate HR”. The author, Keith Hammonds, presented four arguments:

1. HR people are not the sharpest tacks in the box. The best and the brightest don't go into HR;
2. HR pursues efficiency in place of value;
3. HR doesn't work for you. It supports the status quo.
4. HR doesn't get the office next to the CEO.

The author was slammed by many of the readers in the HR community for his comments. But the unfortunate truth is – he is 100% correct.

Observations such as this, and others like them, cause me to re-think the whole concept of Human Resources. Why, for example, do not more CEOs hold HR to higher value producing business standards? On the other hand, why do HR people view themselves as administrative overhead rather than contributors to the company's profitability and productivity factors? And, what is the incentive for either side to change their view?

I seem to have come to several conclusions. Let's try to make sense of them.

1. CEO's don't know how to use HR as a contributor to the company's P&L processes. They prefer to keep HR in their traditional roles as back office support staff. This is their comfort zone. This is how they were taught to think of HR. Conversely, HR has not convinced the CEO that they understand the business as well as he/she does. Nor has HR proven to the CEOs that the quality and substance of their work directly and positively affects the ability of the CEO to sleep well at night.

This is a double-edged sword. On one side, the CEO has been historically trained to consider HR as a support function and nothing else. It exists to keep the company in compliance with a vast number of labor laws and to administer programs conceived, designed, and approved by non-HR people. Theoretically, it is supposed to hire bright people who will stay with the company and produce good work.

On the other hand, HR practitioners have done little to change that perception. Their failure to learn and understand the corporate performance pressure points and to focus their work on relieving those pressure points has been widely ignored. As a result, CFOs can enter the CEOs office at any time armed with a stream of quantitative data that CEOs use to make their decisions. The HR executive is left to talk about the qualitative or softer aspects of business such as diversity training, wage and hour law compliance issues, employee relations, and so on.

For better or worse, most CEOs tend to live and die by the quantitative aspects of their company's performance. If they are the CEO of a publically traded company, the pressure on financial performance is much more intense. The poor HR executive is left to blather about issues that are secondary to the CEOs attention span.

2. Far too many HR professionals are uncomfortable with financial metrics by which CEO's make most of their critical decisions. Then they complain about not being taken seriously. Part of the problem is based upon the concepts of specialization that our society has embraced over the past century. In HR for example, the function has become so specialized that it has lost sight of why the company is in business in the first place and, secondly, how it is supposed to stay in business. We have experts in recruiting who are told who they can hire because of diversity or EEO mandates, but do not know how to hire people who can advance the business plan of the company. Can you imagine your local mechanic who is a world class engine mechanic not being able to realize that the axle is broken? What's wrong with this picture?
3. HR is a reactive and defensive function within most organizations. This has to stop immediately. Complying with various labor laws is a critical, but a defensive business approach. Theoretically, the

work is designed to keep the government off of the company backs. Think of the various HR produced training sessions that you have gone to in the past couple of years. Has it changed your behavior? Has it generated a better selection of talent to work in your company? Has it had an impact on sales and revenue? Has it impacted inventory turns? Suppose that you have produced a world class training program on harassment and the company records a deficit on its balance sheet? What is a good HR person to do in this case? Rare is the sports team who wins by only playing on defense.

4. **HR does not hire for talent.** How can one hire for talent without knowing what the talent is expected to produce? In today's hyper competitive environment, the search for quality talent can be unforgiving. Recruiting, hiring, and retaining talent involves understanding where the company is today, where it envisions itself in the future, and getting the right people with the right KSAs to achieve that vision. HR must take the lead in being pro-active with the business. It must conduct frequent status checks on the direction and movement of the company. This includes financial as well as non-financial challenges that the company will face. If another department is not performing up to expectation, how will HR directly help that department achieve its business goals and contribute to the success of the company?
5. **HR must kick the "Silo Mentality" habit once and for all.** No department in any company can continue to exist as a stand-alone discipline. Organizations are made up of several interconnected and interdependent entities. Each must wholly integrate itself into all other functions, and its practitioners must be able to speak the language of every department. If you expect to work as an equal partner with the company's other strategic experts, you must be fluent in their language as well. Negotiating a new labor relations contract or a new health care contract may be a part of HR's traditional silo. But the results of these negotiations will have a direct impact on the ability of the company to compete, to earn a profit, and to maintain its market share with competitive pricing. Diversity for the sake of diversity is valueless. Diversity for the sake of improving corporate performance and social responsibility metrics has enormous value.

One final thought about HR. What would happen if your CEO directs that the HR department be operated as an internal profit center that must bill their colleagues for services rendered and value delivered? Could they do it? Farfetched? Not really. With the help of technology advancements, companies are doing it with increasing frequency as they outsource many of the traditional HR subjects: payroll processing, benefits selection and administration, government reporting, etc. An outside vendor can argue that they can perform these functions better, faster, cheaper than the internal functions. And, they are winning the contracts. As trade and national barriers fall, companies are finding out that they can outsource many functions, HR included, to outside vendors who provide improved value for the dollars/Euros/yen expended.

Human resources is a critical and value driven asset to all companies. Whether it is provided as an internal asset or an external asset is up to the leaders of that asset.

Word count: 1,223